

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6309**

**BILL NUMBER:** SB 82

**NOTE PREPARED:** Nov 29, 2007

**BILL AMENDED:**

**SUBJECT:** Taxation of Civil Service Annuities.

**FIRST AUTHOR:** Sen. Lewis

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides a 100% income tax deduction for civil service annuity income received by an individual or the individual's surviving spouse. It phases in the deduction over five years and repeals the current civil service annuity income tax deduction.

**Effective Date:** January 1, 2008 (retroactive).

**Explanation of State Revenues:** *Summary:* The bill would reduce Adjusted Gross Income (AGI) Tax liabilities of certain individual taxpayers who receive federal civil service retirement benefits, including surviving spouses. The provisions of this bill would not require the annuity to be offset by social security, as is required now. The bill phases in a 100% income tax deduction over 5 years. In years 2008 through 2011 the deduction is equal to the greater of a percentage of the annuity (20%, 40%, 60%, and 80%, respectively) or \$12,000. The potential revenue loss due to the increase in the deduction is summarized in the table below.

<b>Tax Year</b>	<b>Annual Revenue Loss</b>
2008	\$14.81 M
2009	\$15.01 M
2010	\$16.95 M
2011	\$23.41 M
2012	\$30.32 M
2013	\$31.41 M
2014	\$32.54 M
2015	\$33.72 M

**Background:** Under current statute, taxpayers may deduct up to \$2,000 in civil service annuity income. The deduction is equal to the difference between \$2,000 and the total amount of social security and railroad benefits received by the taxpayer. Data from the U.S. Office of Personnel Management indicates that there were about 26,000 federal retirees and about 8,800 surviving spouses of federal retirees residing in Indiana in 2006. On average, that number has increased 0.45% over the past 10 years. These individuals received \$740.0 M in civil service annuity payments during 2006, with the average annuity to retirees equal to about \$24,000. The average survivor's benefit was about \$13,000. The totals payments to retirees and their spouses in Indiana increased, on average, 3.60% over the past 10 years.

The bill increases the deduction beginning in tax year 2008, thus, the fiscal impact of the phase-in will commence in FY 2009. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the increase in the civil service retirement deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a minimal decrease in revenue from these taxes.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:**

**Fiscal Analyst:** Hannah Mongiat, 232-9867.